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MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Waiting For The Holidays

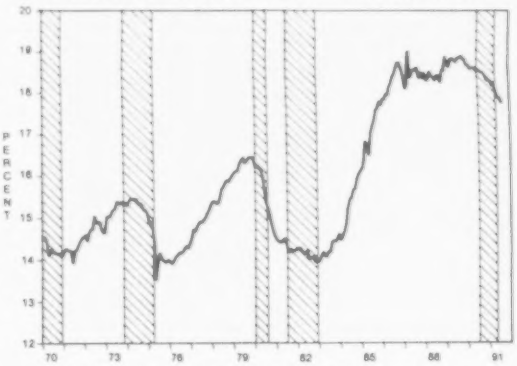
With the Holiday selling season fast approaching, virtually all analysts are pondering likely consumer behavior in coming weeks. The stakes are high, not only for the retailing community, which typically derives about one third of its annual sales and one half of yearly profits during the Christmas season, but for the entire economy as well. For if the recent reluctance of the consumer to spend persists, the odds lengthen that today's modest manufacturing-led rebound will endure. Unfortunately, with both positive and negative factors buffeting consumer confidence and finances, the jury is still out as to just what will happen over the next month or two, a decidedly uncertain environment which breeds caution and skepticism at precisely the same time that a good-sized dose of the opposite is necessary.

If households decide to sit on their hands during the current Holiday season, it would be the second one in a row. Last year, the unfolding of the Persian Gulf crisis soured consumer confidence and pinched spending, contributing to the onset of a three-quarter slide in inflation-adjusted GNP. At this juncture, the economy again finds itself at a crossroads. While it appears a good bet that GNP growth returned to the plus column in the third quarter, this was almost entirely due to an upturn in industrial output and a significant slowing of inventory liquidation. However, with the inventory rebalancing process largely completed, the principal concern now is that the forward momentum of the industrial sector will soon dissipate unless consumers and businesses start to buy some of the goods turned out over the past few months.

Pluses And Minuses

Notwithstanding what many of the more pessimistic pundits believe, there are several bright spots sprinkled among the darker ones on the household financial landscape. Take, for example, labor market conditions. Although employment levels took a beating during the recession, the tide has turned in recent months. Paced by a hefty upturn in selected service industry employment, especially health care, and a cessation of factory layoffs, nonfarm payrolls increased by 224,000 persons during the past five months, a huge turnaround compared with the one million person drop in payroll jobs—40 percent of which were manufacturing jobs—experienced during the immediately preceding five-month period. So, too, initial claims for state unemployment insurance benefits have ebbed compared with their late winter peak, yet still remain at uncomfortably high levels.

INSTALLMENT DEBT AS A PERCENT OF DISPOSABLE INCOME



Sources: Federal Reserve; Commerce Dept.

Nonetheless, painting too rosy a picture of job market conditions could promote false optimism. Murky employment prospects and relentless cost cutting throughout large chunks of corporate America continue to chip away at consumer confidence—which is already retreating from the high point reached following the end of hostilities in the Persian Gulf. Announced major layoffs soared to a record high in the third quarter, and the fourth quarter may not be much better. Job cutbacks continue to spread throughout such large service industries as commercial banking and insurance, and layoff announcements have become part and parcel of disappointing corporate earnings performance. What is more, many of those still working are being required to do so on a part-time basis. The number of involuntary, part-time workers has jumped by more than 20 percent during the past year, while the number of people voluntarily working part-time hours has dropped by one percent.

Not surprisingly, record major company layoffs and surging part-time employment are incompatible with buoyant consumer confidence and robust retail sales—translating directly into a disinclination to spend. They are, however, compatible with lackluster income growth, which curbs the ability to spend. For although household disposable income increased by a

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seemingly moderate 3.6 percent over the past year, this has not kept pace with inflation. Real disposable income declined 0.1 percent during the period. Nor is the prognosis all that good for any quickening of income growth. With higher-paid, white-collar workers at the cutting edge of the downsizing of many industries, the growth of wage and salary income remains squeezed, while the downdraft in interest rates does the same to interest income.

Balance Sheet Improvements

In response to clouded job and income prospects, consumers have begun to take steps to shore up their finances. For one thing, households seem to be trying to save more, even in the face of anemic income growth. The savings rate is now hovering at around four percent of disposable income which, although still low by almost any yardstick, is well above the nadir reached in 1987. For another, consumers are apparently becoming uncomfortable with the mountain of installment debt acquired in recent years.

After nearly tripling in size to $730 billion during the 1980s, the growth of consumer installment debt outstanding came to an abrupt halt in mid-1990; over the past year, it has declined by about one percent. As shown in the chart,

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/2/91)	177,539	- 1,188	- 29,702
New York City (10/9/91)	29,963	+ 401	- 5,664
Commercial Paper (10/9/91)	531,037	+ 600	- 31,975

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/2/91)	299,986	+ 2,711	- 18,923
New York City (10/9/91)	53,822	+ 16	- 2,873

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/2/91)	1,015,789	- 197	- 3,305
New York City (10/9/91)	167,080	- 529	- 11,790

Financial Markets

	Friday 10/18/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.16%	+ .07	- 2.31
180-Day Bills†	5.26	+ .07	- 2.29
Longest Bills†	5.37	+ .10	- 2.16
Recent Issues:			
6¼s 9/30/93	5.95	+ .08	
7s 9/30/96	6.86	+ .05	
7⅞s 8/1/01	7.51	+ .04	
8⅛s 8/15/21	7.96	+ .09	
Municipals:			
Bond Buyer—20 Bond Index* (10/17/91)	6.67%	+ .01	- .81
Blue List Total ($ Million)	$1,100	- $ 135	+$ 19
30-Day Visible Supply ($ Million)	$3,812	+ $1,392	+$1,946
Total	$4,912	+ $1,257	+$1,965
Corporates:			
Moody's Aa Composite (10/17/91)	8.85%	+ .01	- .96
30-Day Visible Supply ($ Million)	$ 150	- $ 500	- $ 317
Stocks:			
Dow-Jones Averages:			
Industrials	3,077.15	+ 93.47	+556.36
Transportation	1,287.00	+ 69.88	+418.84
Utilities	214.76	+ 2.94	+ 4.88
65 Stocks	1,111.84	+ 38.65	+224.42
N.Y.S.E. Composite Index	216.15	+ 6.08	+ 45.75
N.Y.S.E. Avg. Daily Vol. for Week (000's)	195,590	+ 32,450	+14,864

*34% Taxable equivalent 10.11%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/18/91	Week Ago
Overnight	5.19%	5.13%
1 month	5.25	5.19
3 month	5.38	5.31
6 month	5.38	5.31
1 year	5.56	5.50

FOREIGN EXCHANGE SPOT RATES New York Opening (10/18/91)	Currency Per U.S. $	Week Ago
Belgium	34.83	35.02
Canada	1.1288	1.1297
France	5.7665	5.7940
Germany	1.6920	1.7000
Italy	1264.70	1276.90
Japan	130.05	130.00
Mexico	3076.60	3063.80
Netherlands	1.9065	1.9155
South Korea	734.51	736.39
Switzerland	1.4790	1.4890
Taiwan	26.12	26.10
U.K.*	1.7208	1.7120

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (10/18/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	0.0%	-11.0%

the paring of installment debt and modest income growth have brought to a halt the relentless rise in the ratio of consumer installment debt-to-disposable income. While the "deleveraging" of household America has just begun, and will not by itself spark a consumer-driven boom this Christmas, it does give consumers a bit more breathing room if, and when, they decide to spend more.

Modest job market improvements, limited income gains and a bit of debt relief should set the stage for a modestly healthy Holiday season for retailers. Although inconclusive by itself, the upturn in retail sales in September, while largely auto-related, was a step in the right direction. However, since the economy is still constrained by the credit/bank capital "crunch", belt-tightening by state and local governments and anemic corporate profitability, there is certainly no shortage of negatives which could derail any spurt in consumer spending. For this reason, the monetary policymakers will keep a sharp eye on each and every economic statistic in the weeks ahead, ever ready to push short-term interest rates lower. While this might depress household interest income somewhat, it might also provide a fillip to spending by encouraging more consumer borrowing. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/16/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	263.146	+ .468	+20.729
Loans to Depository Inst.	.321	+ .062	- .070
Float	.616	+ .109	+ .037
Total Reserve Bank Credit	296.052	+ .895	+11.336
Treasury Deposits with Federal Reserve Banks	4.486	- .775	- 1.020
Currency in Circulation	296.584	+ 1.600	+21.112
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	247.684	- 2.461	+10.056
Member Bank Reserves:	**10/16/91**		
Total Reserves Held	52.067	+ 1.897	- 8.268
Excess (Deficiency)	1.163	+ .119	+ .179
Net Free Reserves	.880	+ .178	+ .284

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (10/7/91)	875.8	+ 6.2	+ 6.1
M2 (10/7/91)	3,393.1	- 0.6	+ 2.1
M3 (10/7/91)	4,137.7	- 2.1	+ 1.1
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/18/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.17%	5.25%	5.38%
* Federal Agencies	5.10	5.15	5.45
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.21	6.52	6.52
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.45	5.44	5.55

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.20%	Nov.	5.20%
15- 29 days	5.18	Dec.	5.17
30- 59 days	5.14	Jan.	5.23
60- 89 days	5.00	Feb.	5.22
90-179 days	5.24	Mar.	5.19
180-239 days	5.25	Apr.	5.17
240-270 days	5.25		
‡ Industrial Paper–Prime			
30- 89 days	5.21%	†Federal Funds Effective Rate	5.00%
90-120 days	5.30		

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'91	$ 5,612	$ 5,558	$ 5,443
Gross National Product (1982 Dollars)*	2nd Q'91	$ 4,119	$ 4,124	$ 4,155
Percent Change, Annual Rate	2nd Q'91	- 0.5	- 2.8	+ 0.4
Change in Consumer Prices*	Sep '91 n	4.8%	2.4%	9.6%
Change in MH Cost of Living Index*	Sep '91 n	3.6%	4.8%	4.8%
Change in Producer Prices*	Sep '91 n	1.2%	2.4%	15.6%
Civilian Employment (Thousands of Persons) †	Sep '91	117,165	116,416	117,883
Unemployment as % of Civilian Labor Force †	Sep '91	6.7%	6.8%	5.7%
Personal Income*	Aug '91	$ 4,824	$ 4,804	$ 4,675
Leading Indicators Composite Index (1967=100) †	Aug '91	145.4	145.4	144.4
Industrial Production Index (1977=100) †	Sep '91 n	108.1	108.0r	110.6
Net Change in Consumer Installment Credit †	Aug '91 n	- $ 1.29	- $ 0.63r	+$ 1.09
U.S. Merchandise Trade Balance †	'91 n	- $ 6.76	- $ 5.95r	- $ 9.35
Plant and Equipment Expenditures*	'91	$ 540.9 (a)	$ 539.5 (a)	$ 529.0
Private Housing Starts (Thousands of Units)*	Sep '91 n	1,033	1,056r	1,106
New Construction Expenditures*	Aug '91	$ 406.2	$ 404.9	$ 449.7
Total Business Inventories †	Aug '91 n	$ 806.2	$ 806.8r	$ 822.7r
Total Business Sales †	Aug '91 n	$ 540.9	$ 541.0	$ 554.2r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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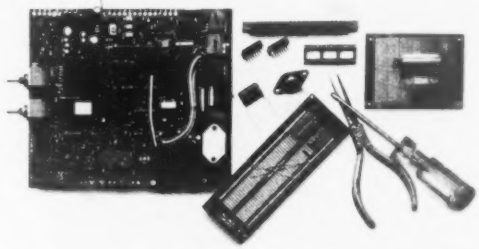

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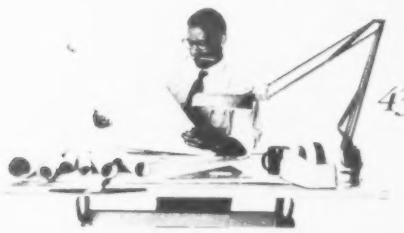
143 Gardening Centers,



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